



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/25/2002

GAIN Report #CH2801

China, Peoples Republic of

Market Development Reports

China's Growing Mink Market

2002

Approved by:

LaVerne E. Brabant

U.S. Consulate General, Shanghai

Prepared by:

Mabel Zhuang, Barbara Lee, Nathaniel Aden

Report Highlights:

The sustained growth of U.S. farmed mink and other fur exports to China since initial market entry in 1997 is an exemplary success story for American agricultural exports. After several years of persistent market development, China has become the number one market for the U.S. mink industry, recently accounting for more than 46% of American production. Each February and May for the past two years, Hong Kong and China buyers have dominated the major auctions held by the Seattle Fur Exchange (American Legend Cooperative) and the North American Fur Association. According to U.S. Department of Agriculture statistics, gross exports of raw U.S. mink to Hong Kong and China have risen from US\$ 19.4 million in 1997 to US\$ 50.2 million in 2000, an increase of nearly 160%.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai [CH2], CH

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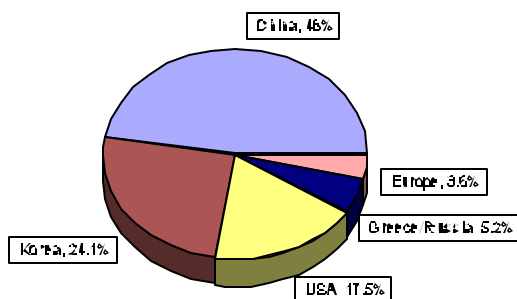
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I. Market Overview

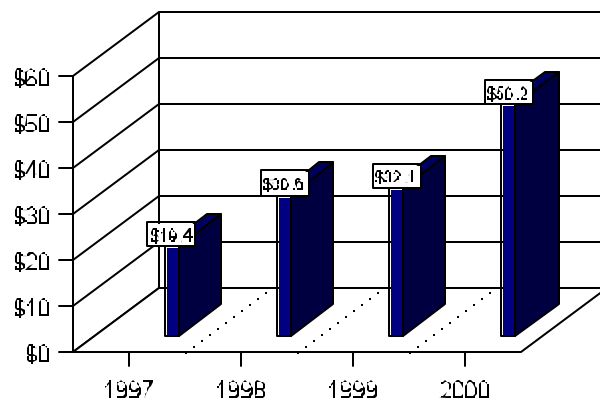
The sustained growth of U.S. mink and other fur exports to China between 1997 and 2001 is an exemplary success story for American agricultural exporters. After several years of persistent market development, China became the number one market for the U.S. mink industry in 2000, when it accounted for 46% of American production (See Graph One below). Each February and May for the past two years, Hong Kong and China buyers have dominated major auctions held by the Seattle Fur Exchange (SFX) and the North American Fur Association (NAFA). According to U.S. Department of Agriculture statistics, gross exports of raw U.S. mink to Hong Kong and China have risen from US\$ 19.4 million in 1997 to US\$ 50.2 million in 2000, an increase of nearly 160 % (See Graph Two Below).

Major Markets for U.S. Mink



US Mink Exports to China/Hongkong

Annual Revenue (million US dollars)



During the past several years China imported raw American pelts for garment manufacturing, often re-exporting the furs to more developed American and European markets as upscale garments. In order to take advantage of China's comparatively cheap labor and less stringent environmental restrictions, many traditional Hong Kong fur manufacturers have relocated dressing plants and garment factories to China- mainly Guangdong, Hebei, and Liaoning Provinces- over the past decade. In this way, garments made from high-quality U.S. mink pelts have been sold to the world at large via the China fur trade complex.

While China's import of American minks for manufacturing has remained fairly steady, the domestic Chinese retail market for fur has experienced remarkable growth. Given China's low average income and per capita consumption, it may seem hard to believe that Chinese consumers can afford luxurious American mink. However, in 2000 more than 50% of U.S. mink exported to China is estimated to have been sold in the domestic market, largely in Northeast China, which includes Heilongjiang, Jilin, and Liaoning Provinces (See Appendix Map). Retail sales of American fur in China have been bolstered by innovations in processing and manufacturing techniques, which in turn have strengthened the area of non-traditional fur utilization. These innovations have combined with the increasing popularity of fur trim and fur as a fabric to broaden the Chinese market for American mink. For example, many lower-end U.S. fur products, including mink tails, are dyed and made into trimmings, such as colorful collars, scarves and purses, then distributed throughout China, especially in the frigid northeastern provinces.

II. Why U.S. mink?

China has traditionally been a difficult market for American fur producers. As the Chinese mink market has grown, a limited number of private farms in Northeast China have begun to produce mink for the domestic market. Although Chinese fur quality is generally not up to international standards, profit margins are very narrow and price competition is fierce. American producers also have to compete with European fur producers from Denmark, Holland, and Finland, most of whom entered the Chinese market years ahead of the American industry. Perhaps the largest challenge for American mink is that it is among the most expensive fur in the world and as recently as 1997 there was little, if any, consumer awareness of its high quality. Although U.S. mink only accounts for 11% of world supply, it currently enjoys a 30% market share in China. How did China become the top market for U.S. fur? Why is American mink so popular among Chinese consumers? ATO Shanghai has isolated three factors that explain the increased popularity of American mink in China:

c Geographic Market Segmentation

The major markets for U.S. mink are not large metropolitan cities such as Shanghai or Beijing, but rather the three provinces of Northeast China, which border Russia and Korea and are famous for their cold weather. The capital cities of the three provinces (Harbin, Shen Yang, Chang Chun) and the coastal city, Dalian (See Appendix Map), are traditional fur retail centers. In these places it is not uncommon for men to wear fur to stay warm through the frigid winters. For example, Harbin, the most important fur retail market, has an average annual temperature of 40F, and is usually covered with snow for four months each year. The cold weather makes mink coats more of a necessity than a luxury. Among wealthy consumers in the Northeast, it is not uncommon for a person to own 4-5 mink garments. With recently rising levels of disposable income, it is also increasingly popular for middle-class shoppers to purchase and wear mink garments.

When SFX made its China debut in 1997, it held fashion shows in Shanghai and Beijing. The Seattle Fur Exchange soon realized that the weather in Shanghai, Guangzhou, and, for most of the year, Beijing -the traditional markets for imported products- is not cold enough to broaden demand beyond wealthy consumers, who generally use mink as a status symbol at important social occasions. Thereafter, SFX discovered the more mature, large-scale fur retail market in Northeast China. In order to capitalize on this discovery, SFX focused its marketing activities on the northeastern provinces of Liaoning, Jilin, and Heilongjiang starting in 1997. Shanghai and Beijing are not being neglected. Rather, U.S. mink is popular among the upper-class in large metropolitan cities, while in the Northeast the market includes a larger pool of middle-class consumers.

The market for American fur is currently expanding beyond the four traditional retail centers to include emerging market cities in each of the three provinces of Northeast China. For example, Daqing, a neighboring city of Harbin known for its oilfields, has emerged as an important market. Rising average income and provision of housing with most employment provide Daqing consumers with significant disposable income and limited spending opportunities: two important ingredients for the development of the retail market for American mink in China. U.S. fur is also becoming more popular in smaller provincial towns such as Mudanjiang and Jiamushi, in China's northern-most Heilongjiang province.

c Chinese Trade Sector

The mink garment trade in China is characterized by large volumes and low margins. For example, a full-length mink coat can easily be purchased for US\$ 2,500- only one quarter or even one tenth the price in Europe or the U.S.

Moreover, Chinese consumers benefit from intense competition in the Chinese fur industry, which squeezes profit margins and retail prices to lower levels.

To penetrate the China market, both SFX and NAFA have recruited Chinese buyers and traders to attend their auctions since 1997. In 2001, nearly 200 Chinese and Hong Kong traders attended auctions and fairs at the only remaining fur auction house in the United States, the Seattle Fur Exchange, where increased bidding boosted overall fur prices. In addition to trader recruitment, intensive educational seminars and workshops have educated Chinese consumers on the superior quality of U.S. mink. These seminars commonly have models wear U.S. and European mink coats respectively, and let the audience touch the mink to feel the difference.

Trade shows also serve as an important window for showcasing high-quality American mink. Each year, there are two major fur trade shows, the Dalian Fashion Fair and the Haining Leather Fair. Dalian is the largest economic center in Northeast China, and the Dalian Fashion Festival is one of the most important international exhibitions for textile garments in China. Haining, a city about two hours drive from Shanghai (See Appendix Map), is also known as 'the hometown of leather.' The growing popularity of U.S. mink in Haining, where it is mostly used for trimmings, such as collars and scarves, illustrates the increasing importance of non-traditional fur utilization in China. Though not as large as the garment business, the trimming business consumes a significant and increasing amount of U.S. mink. One trader in Haining, for example, purchased more than US\$ 2 million worth of pelts for use as trim at the Seattle Auction in May of 2001.

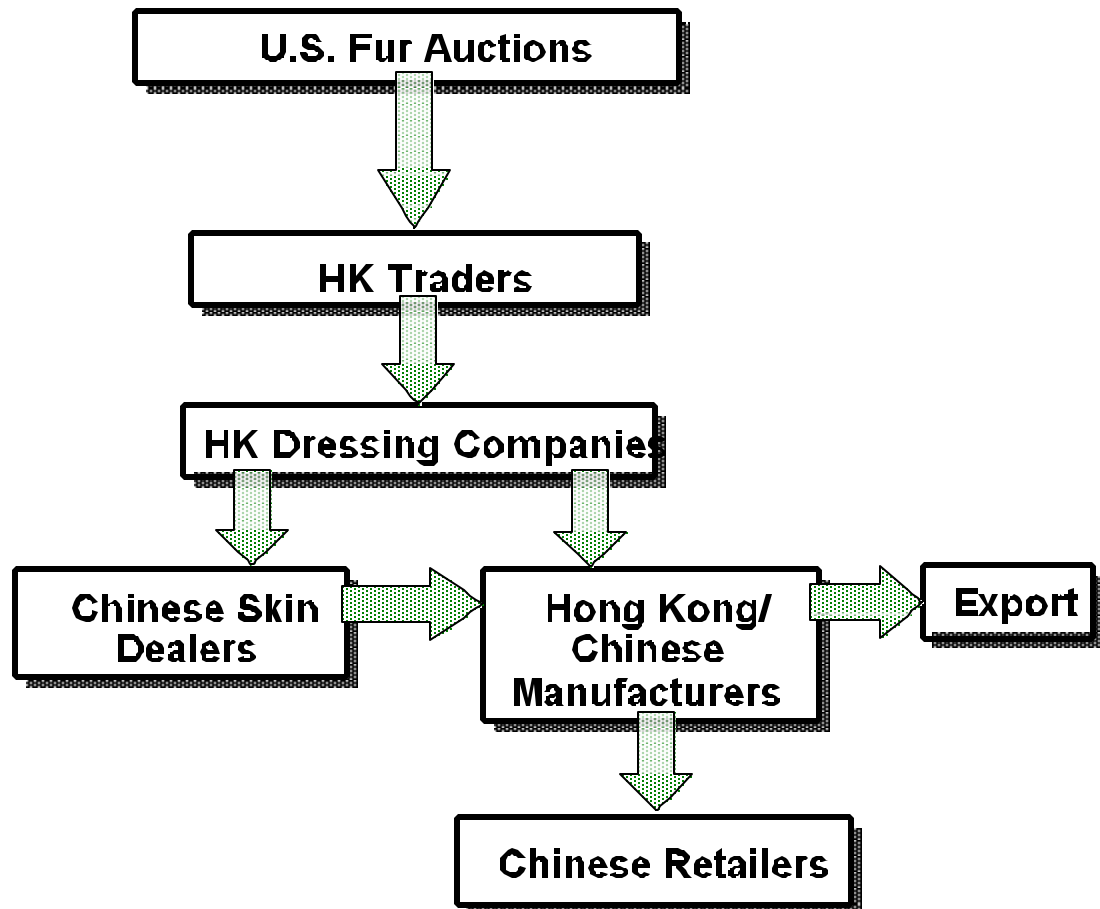
c Fur Retail Sector and High Consumer Awareness

The retail sector for mink trade is developing nicely. In general, there are two types of retail outlet: 1. rented space in a large department store or shopping mall. For example, Harbin Yuanda Fur Center occupies one third of a floor within the 10-story, upscale Grand Shopping Center in the center of the city, and can sell as many as 3,000 mink coats and accessories during the winter. 2. Another popular model is to open an independent mink specialty store. For example, several mink stores in Dalian cover more than 1,000 square meters and sell more than 3,000 coats per year.

In Northeast China, sophisticated consumers are already able to discern the difference between U.S. and European fur, the latter mainly imported from Denmark and Finland auction houses. While American mink coats cost an average of US\$ 500 more than their European counterparts, fur retailers have found that marketing campaigns pay off in that Chinese consumers are willing to pay a premium for higher quality and image. Blackgalama for example, a top brand of the SFX, has found a healthy market in China. Blackgalama is better known as "American Black" among Chinese consumers who are proud of owning this brand name mink coat. In international auctions, Chinese and Korean buyers are the main purchasers of this most precious fur.

Consumer awareness of American products is not built overnight. Years of sustained market promotion work has effectively conveyed a consistent message to consumers that U.S. mink is the highest quality in the world. Public relations activities and retail promotions are usually conducted throughout the winter. Recently, one Chinese trader held a live TV fashion show in his mink specialty shop to promote American mink. SFX has contributed creative approaches such as developing training programs for shop assistants to establish more daily contact with consumers. Persistent education campaigns focused on retailers and consumers are gradually increasing demand (and market share) for high quality U.S. mink throughout China.

III. Hong Kong's role in Chinese Fur Distribution



Hong Kong players are ubiquitous in China's fur trade. They are active in every link of the distribution, as illustrated by the above distribution diagram. Generally speaking, Hong Kong traders act as brokers for Chinese buyers at U.S. fur auctions. As a special license and an established reputation are both required to be a broker, no mainland Chinese have yet qualified, though that is also due in part to English language barriers. One Hong Kong trader normally represents several Chinese buyers and bids on their behalf.

After the auction, Hong Kong traders are responsible for making payment to the auction house and shipping the fur to Hong Kong and then to China. The first stop in China is usually Guangdong, where there are hundreds of dressing factories run by Hong Kong companies. After the raw furs are treated, they are transported to direct buyers, Chinese skin dealers, and Hong Kong and Chinese garment and trimming manufacturers. Most of the large-scale garment factories are also operated by Hong Kong people, while Chinese manufacturers generally focus on the trimming business. The recent trend is that more and more Chinese manufacturers are attending auctions to purchase U.S. mink directly. Consequently, Hong Kong fur dealers are running on thinning margins and may ultimately play a significantly diminished role in the China market.

Many manufacturers and producers are redefining their links with retailers in order to become more competitive. Hong Kong and Chinese manufacturers are working closely with retailers in northeast China, Shanghai, and Beijing to do promotions, including indoor/outdoor fashion shows, window displays, and media advertisements. Since Hong Kong has penetrated nearly every link of the fur business, it is expected that they will continue to play a role for the next 5-10 years. In the long term however, China will likely develop its own fully integrated mink processing industry, especially post-WTO accession in 2002.

IV. Conclusion

Prior to 1997 European mink dominated the China market. The U.S. fur industry was undaunted by the initial European advantage, and in recent years has made successful efforts to explore and develop the China market. The enormous success of American mink in China proves that market research and development is worthwhile. As Chinese consumers become more conscious of brand name and product quality, many agricultural products stand to succeed as the American mink industry has from the development of new markets.

In addition to China's unabated economic development, several other factors bode well for the U.S. fur industry here. While fur seems to be coming back in to fashion in the U.S. and Europe, fur promotions or retailers that include fur among their hundreds of other products are often met with public protest and criticism from vocal animal rights groups. In China on the other hand, most consumers do not see any difference in consuming leather and fur products, and do not seem to harbor ethical concerns about animal products in general. In terms of market development, China's established mink manufacturing base and the high-quality image of American farm-raised mink among Chinese consumers suggest that domestic consumption of U.S. mink will grow with increased per-capita income. Moreover, China is a huge and diverse market that is expected to grow in the wake of WTO accession. In addition maturing markets in northeast and metropolitan China, western China also holds potential for the U.S. mink industry. This winter, NAFA has pushed the fur frontier further west with a fashion show in Urumqi, Xinjiang, where several fancy fur specialty shops have recently opened.

Looking to the future, the good reputation and high quality of U.S. mink combines with sustained Chinese economic development to suggest that the American fur industry will continue to achieve success in China. The Seattle Fur Exchange (SFX) alone estimates their exports at over US\$ 40 million of furs to China in 2001. SFX Hong Kong/China Representative, Barbara Lee, observes that "China is one of the largest markets for U.S. mink where future growth is estimated at 10%-15% annually over the next three to five years." Indeed, the future market prospects for American farmed mink in China appear bright.

IV. Further Information

For further information about exporting to China, as well as upcoming events and activities, please visit the ATO Shanghai website www.atoshanghai.org. Reports from ATO Shanghai and other ATO offices around the world are also available from the FAS website www.fas.usda.gov. For further information on American fur exports to China, please contact the following cooperator organizations:

Seattle Fur Exchange (SFX), a Division of American Legend Cooperative
200 S.W. 34th St.

Renton, Washington 98055, USA
Telephone: + 425-251-3100
Fax: + 425-656-0185
Website: <http://www.seattlefur.com>

North American Fur Association (NAFA)
65 Skyway Ave, Rexdale
ON, M9W 6C7, Canada
Telephone: + 416-213-2154
Fax: + 416-213-2187
Website: <http://www.nafa.ca>